

**MULTIMEDIA**



**UNIVERSITY**

**STUDENT IDENTIFICATION NO**

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# **MULTIMEDIA UNIVERSITY**

## **FINAL EXAMINATION**

**TRIMESTER 3, 2017/2018**

**BFN 2054 – PORTFOLIO MANAGEMENT**

(All sections/ Groups)

6 JUNE 2018  
9:00 A.M. – 11:00 A.M.  
(2 Hours)

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### **INSTRUCTION TO STUDENT**

1. This Question paper consists of 2 pages with 5 questions.
2. Attempt all the questions. The distribution of the marks for each question is given.
3. Please answer all questions in the Answer Booklet provided.

**Please answer all the questions**

**Question 1: (20 marks)**

- i) If a Mutual fund loses an average of 15% for each of the first three years, what average annual return must it achieve over the next ten years in order to provide its owners a 20% annual return over the thirteen year period? (5 marks)
- ii) Differentiate between i) financial asset and real asset ii) real property and real estate AND provide ONE example for each of them. (5 marks)
- iii) Portfolio with RM250,000 in equity and RM10,000 in cash. The beta of the portfolio is 1.0. Explain how the beta of the portfolio can be reduced to 0.95. (10 marks)

**Question 2: (20 marks)**

As a fund manager of the investment bank, you are trying to establish a strategic asset allocation for two different clients, Mr. Ali and Mr. Atu. Mr. Ali has a risk tolerance factor of 8; while Mr. Atu has risk tolerance factor of 27. The characteristics for four portfolios are as follows:

Asset Mix				
Portfolio	Stock	Bond	Expected Return	Standard Deviation
1	5%	95%	8%	5%
2	25%	75%	9%	10%
3	70%	30%	10%	16%
4	90%	10%	11%	25%

- i) Calculate the expected utility of each prospective portfolio for each of the clients. (8 marks)
- ii) Which portfolio represents the optimal strategic allocation for Mr. Ali? Which portfolio is optimal for Mr. Atu? Explain the difference in these two outcomes. (6 marks)
- iii) For Mr. Ali, what level of risk tolerance would leave him indifferent between having portfolio 1 or portfolio 2? (6 marks)

**Continued....**

**Question 3: (20 marks)**

- i) Who manages the portfolios at investment advisory firms and investment companies, and how are those managers compensated? (15 marks)
- ii) How do you compute the net asset value (NAV) for investment companies? (5 marks)

**Question 4: (20 marks)**

Consider the following information for four portfolios, the risk free rate (RFR) = 0.07.

Portfolio	Return	Beta	Standard Deviation
A	0.15	1.0	0.05
B	0.20	1.5	0.10
C	0.10	0.6	0.03
D	0.17	1.1	0.06
Market	0.13	1.0	0.04

- i) Compute the Treynor measure for each portfolio and the market portfolio. (5 marks)
- ii) Compute the Sharpe measure for each portfolio and the market portfolio. (5 marks)
- iii) Rank the portfolios using each measure, explaining the cause for any differences you find in the rankings. (5 marks)

**Question 5: (20 marks)**

ABC stock has an expected Return of Equity (ROE) of 12% per year, expected earnings per share of RM2, and expected dividends of RM1.5 per share. Its market capitalization rate is 10% per year.

- i) What are its expected growth rate, its price, and its Price/Earnings (P/E) ratio? (10 marks)
- ii) If the plowback rate were 0.4, what would be the expected dividend per share, the growth rate, the price, and the P/E ratio? (10 marks)

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